Audit's® NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

April 8, 1977 VOL. VIII, No. 7

INVESTMENT SELECTION AND REVIEW ISSUE
Share amounts of trusts reviewed in this issue

Trust	Traded	Bk.Val.	Price*	Ann. Div.	Ann. Yld.	%/Bk.	Page
Atlanta Nat. RE...	OTC	$10.24	$ 2.00	None	Nil	-80%	2
BankAmer. Rlty....	OTC	15.27	9.50	$0.52	5.5%	-37	3
Investors Rlty....	ASE	10.52	6.75	None	Nil	-36	5
JMB Realty........	OTC	18.57	14.00	1.60	11.4	-16	6
Maryland Realty...	OTC	8.06	3.50	None	Nil	-57	8

INVESTMENT SELECTION: FOUR PYGMIES AND A GIANT VIEWED AS ATTRACTIVE

In real estate, small very often is beautiful. That means that small investment portfolios very often outperform larger holdings because they are small and compact enough to let management become thoroughly versed in local market nuances. And real estate remains a local business. Thus four trusts reviewed this issue are very small and one, Maryland Realty, has never been reviewed here. Smallness however has not immunized these trusts from problems and indeed three have halted dividends. Now all three appear on the comeback trail, despite some formidable obstacles ahead.

Unhappily small is not always beautiful in the stock market and four trusts trade in the over-the-counter market where spreads between bid and asked are often very wide (JMB units are 14-16, for instance), making large scale trading by institutions next to impossible. This offers the small investor some protection against getting clobbered if institutions decide to unload and makes long-term price estimation more predictable. The five trusts reviewed are all seen as recovery situations from varying degrees of distress and price erosion.

Updating the Chase Trust tender: Chase Manhattan Mtg. & Rlty. Trust has extended its offer to buy any and all of its $50 million of 7-7/8% senior notes at 80% of principal until April 13. Only about $10 million were tendered by the initial March 29 deadline, but the trust emphasized it has commitments from bank lenders to tender their notes up to the full $50 million. Banks also bid $202½ million for trust assets at the first round of swap bidding; closing of these swaps could give CMR $40-$50 million extra gains by our estimates. All but two earning loans would be gone but the swaps and tender should boost shareholder equity handsomely. Since banks appear eager to get out of troubled Chase at 20% discounts, we now think noteholders at par should hold to May 1, 1978 maturity, when some accommodation is likely.

KEEPING CURRENT WITH OUR SISTER SERVICES

REAL ESTATE DISCLOSURE DIGEST April 1 issue reports view of the REIT recovery by Carlos Munoz of Citibank; improved sales by Washington Homes, Weyerhaeuser Real Estate, and Centex Corp. *Single copies: $8 prepaid*

DISCLOSURE REPORTS ON PROBLEM PROPERTIES' April 1 issue covers First of Denver Mtg., ICM Realty, United Realty Trust, Mission Investment Trust, and Builders Investment Group. *Single copies: $9 prepaid*

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GROUP RATES ON REQUEST

ATLANTA NATIONAL REAL ESTATE TRUST (2 1/8 Bid--OTC--ATNAS) FY Aug. 31

Real estate investments: Total investments built up to $42.9 million in February 1974 and have been receding very slowly since, the slow decline reflecting the long-term nature of holdings. Investments initially were concentrated in long-term hospital mortgages but these are now a small part of total holdings as diversification broadened investment outlets. Investments by property type at Nov. 30, 1976 were 25% condominiums, 23% medical facilities, 22% apartments, 12% land development, 7% office building, 6% warehouse, and 5% motel. Holdings are primarily in the Sunbelt areas with 26% in Florida, 25% in Georgia, 23% Texas, and 9% Nevada.

Only three earning long-term hospital mortgages remain on the books for $6.7 million, covering proprietary hospitals in Las Vegas, Nev.; Washington, D.C.; and Lake Worth, Fla. These loans carry 10% and 10-3/4% interest plus kickers of 1% of gross revenues of the hospitals. A fourth hospital loan of $1.7 million on a medical facility in Dallas has been foreclosed and is being resold. The remainder of earning assets are two standing first mortgages (i.e., no principal payments are required) on a completed apartment in Ft. Worth, Tex. and a completed Atlanta, Ga. office building.

A total $25.8 million investments, or 71% of the total, are classed as mortgages not earning income or foreclosed property held for resale at Nov. 30, 1976. The percentage of nonearning investments has held in this range in recent quarters, reflecting a static situation in which very few loans are repaid or problem investments cured. Major nonearning mortgages include $6.1 million in four condominium projects, the largest being 150 units in Gainesville (over 50% sold) and 77 units in Miami, Fla.; three land development loans for $910,000, including two in the Atlanta area; $2.7 million standing first mortgage on a Dallas apartment project, now restored to accrual status.

Foreclosed properties include $2.8 million in 67-unit Idlewood condominium in Atlanta; $2.5 million in a 168-unit Baton Rouge, La. apartment, 98% occupied; $2.0 million in a 160-unit Orlando, Fla. motel; $1.7 million in the Dallas medical facility previously mentioned; $1.4 million in a Houston, Tex. warehouse being sold; $1.25 million in a 45,000 sf Atlanta office building; and $3.3 million in five land parcels, including three in the Atlanta area, the largest being $2.8 million in a 1-acre downtown office site. A $590,000 construction loan on two substantially completed Orlando, Fla. warehouses is being foreclosed. Foreclosures operated at a $2,000 profit in the Nov. 1976 quarter, down from an $86,000 operating profit during FY 1976.

Loss reserve: The trust has set aside $7.2 million for possible future losses on investments, equal to 19.8% of investments, well above the 11.9% industry average. This amount isn't spent but is set aside now to cover estimated future costs, including interest, of holding properties and any loss on disposition. The trust charged $226,000 to the reserve in FY 1976 and another $230,000 in the November 1976 quarter. The trust hasn't swapped assets with its banks to accelerate disposition.

Financing: Total debt of $15.6 million is 1.2 times remaining shareholders' equity and 0.8 times combined equity and the $7.2 million loss reserve, very low leverage ratios for a trust at this stage of the recovery. All debt is $15.6 million owed to 16 banks led by Chemical Bank of New York City as agent. ANRET signed a credit agreement with its banks effective Oct. 31, 1974 providing a maximum $18.4 million credit under the following terms: Interest at 132% of the prime rate with no compensating balances; Maturity of Jan. 31, 1978, when all borrowings must be liquidated; Principal payments of $2.76 million on July 31 and Oct. 31, 1976 and Jan. 31, 1977; and four quarterly installments of $1.84 million thereafter. The two 1976 and Jan. 1977 payments haven't been made and $370,000 interest due through Oct. 31, 1976 wasn't paid. The trust continues to seek extension of the repayment deadline from lenders, who have the right to declare loans immediately due and payable. The credit agreement required the trust to pledge substantially all assets; to maintain REIT status; and to cease making new commitments.

The 1,260,000 warrants outstanding are exercisable at $20 through Aug. 31, 1977, when they will automatically convert into shares at the ratio of one share for each 100 unexercised warrants, or 12,600 new shares.

Management & REIT status: The trust is advised by Atlanta National Management Co., owned 50% by Charter Medical Corp., publicly owned operator of proprietary hospitals, and F&W Investments, Inc., owned by three individuals including two trustees. Trust management is identified with Fickling & Walker, Inc., Atlanta real estate and mortgage banking company; William A. Fickling Jr., trust chairman, is 20% owner of Charter Medical and 50% owner of Fickling & Walker. The trust has maintained qualified REIT status since inception Aug. 17, 1971.

Results & outlook: Recent results have been uninspiring, the trust losing 30¢/share in the November quarter and probably about the same figure in February. However the trust has four condominium projects primed for a strong summer sales campaign after acquiring control and management is hopeful that it can move a significant portion of the $8.9 million invested. The portfolio is quite small, only 43 investment properties, and location in the Sunbelt states makes it manageable. So far recovery has been slow but there are signs of accelerating activity. The trust has a very low leverage ratio and while the current impasse and default with banks over early liquidation appears fearsome on paper, we believe banks will not precipitate a crisis over timing of repayment. The shares at 2-1/8 bid sell at a substantial discount from $10.24 book value and while there are obvious risks here, the shares shape up as interesting speculations for sophisticated investors. (KDC)

BANKAMERICA REALTY INVESTORS (9½ bid--OTC--BRLTS) FY July 31

Real estate investments: Total investments peaked at $275 million in the January 1975 quarter and have now fallen about 16% to $225.8 million at latest report. By property type at July 1976, latest detail reported, investments were 27% apartment, 22% shopping center, 20% office building, 14% hotel, 9% condominium, 9% land and land development, and 1% industrial. Slightly over 50% of investments are located in California, with other concentrations in Hawaii, 9%; Florida, Tennessee and New York, about 5% each; and Georgia, 4%.

While the balance sheet indicates investments are about evenly divided between mortgages and equities, the split in reality is more nearly 68% equity investments and 32% mortgages. The difference arises because of the trust's policy to make long-term mortgages only when it also has an equity position and can effectively control a property. Thus the equity portfolio of $170.8 million net of depreciation at July 1976 really breaks down into five major segments:

--A total $68.9 million, divided $54.2 million into long-term mortgages and $14.7 million in ownership of underlying land, in nine core properties. These nine properties include $16.2 million in the Del Amo Financial Center in Hawthorne, Cal., south of Los Angeles. Nonearning investments in this category include a $9.7 million first mortgage (above the trust's $1.9 million second mortgage and $1.5 million land leaseback) in the 256-room Pasadena Hilton in Pasadena, Cal. and 135,000 sf of adjoining office space; the hotel suffers from low weekend occupancy and offices are about 80% leased. Also nonearning are $3.5 million first and second mortgages in a 125-unit Southfield, Mich. apartment, about 85% occupied; the trust has invested $400,000 in the land leaseback position.

--A total $46.7 million invested in direct ownership of another 10 properties including $15.5 million in a California office building and $10.2 million in a California shopping center. These properties are held subject to $23.7 million first mortgages from third parties, giving BARI $23.0 million net cash investment in these properties. All are providing return on investment.

--Another $25.0 million invested in land purchase/leasebacks on 11 properties, the largest being $7.4 million in a California apartment project and $5 million in a California hotel. All are earning.

--A total $28.1 million net of depreciation invested in seven properties ac-

quired in foreclosure. Largest is $11.9 million in Audubon Square, 365-unit Memphis condominium delayed in a dispute with contractors and finally acquired in November 1975. A massive effort was required to correct alleged construction defects and sales have been slow. Other foreclosed properties, all nonearning, include $5.8 million in a 420-unit Denver apartment; $4.8 million in a 360-unit Atlanta apartment; and $2.4 million in a 174-unit Houston apartment, sold in October 1976, for a $434,000 gain, or 7¢/share.

--A total $2.1 million equity in partnerships, bringing nominal return.

Mortgage loans of $80.7 million, excluding mortgages related to equity holdings, are predominantly short-term and have been source of most nonearning investments. At July 1976 these remaining loans were $29 million in construction and development loans, of which 62% were nonearning; $23.4 million in interim loans on completed properties and 45% nonearning; $7.4 million in permanent mortgages to condominium buyers, all earning; and $17.2 million in second and wraparound mortgages, 44% nonearning. Major nonearning mortgages include $5.3 million in an office-retail project in Philadelphia; $3.1 million in a 197,000 sf office in Oakland, Cal.; and $1.7 million in a 47,000 sf office Miami. Land and development loans on which construction has not started include $4.6 million in two tracts in Hawaii (Oahu and Maui) both for residential use; $1.6 million on land, now being foreclosed, adjoining a sold-out Gaithersburg, Md. condo; and $5.8 million participation in a construction loan on stalled 1,050-unit Village Mall at Bayside, New York City. Overall, nonearning investments receded to $67.5 million at January 1977, down slightly from the peak but still a sticky 29.9% of total investments. This bespeaks a slow workdown of known problems and good control over the flow of new ones.

Loss reserve: The trust has set aside $12.65 million as a reserve for possible future investment losses, equal to 5.5% of investments, about half the 12% industry average. The trust charged $2.7 million in FY 1976 and an additional $1.75 million in the Jan. 1977 quarter on a condo loan. The reserve appears adequate based upon the slowly falling level of problems.

Financing: Total debt of $167.6 million is 3.1 times shareholders' equity and is viewed as a manageable leverage ratio at this point in the real estate cycle. About 42% of the total $222 million funds employed is short-term, vs. only about 12% short-term investments. Part of this imbalance is due to necessity to foreclose properties and to stretch out some short-term investments; ultimately it will have to be redressed by either liquidation of some assets or new equity financing. Short-term borrowings are bank loans borrowed under $125 million open lines, and commercial paper sold through the money desk of the sponsoring bank. Bank borrowings require compensating balances for some banks and a fee for others; interest is at the prime rate on some loans and 110% of prime on others. Bank debt was paid down to $26.9 million at Jan. 1977.

The trust's $40 million term loan to banks (originally $50 million) is due in $10 million annual installments beginning Dec. 31, 1978 through maturity Dec. 31, 1982. During FY 1976 the trust used proceeds from sale of an apartment complex and other funds to prepay the first $10 million installment and thus the next installment isn't due until Dec. 31, 1979. The term loan carries interest at 120% of the prime rate and was advanced by Chemical Bank and Bankers Trust Co., both of New York City.

Management & REIT status: BankAmerica Realty Services, Inc., subsidiary of bank holding company BankAmerica Corp., has advised the trust since inception in July 1970. The trust has remained qualified as a REIT since its founding.

Results & outlook: BARI reported earning 55¢/share in the January 1977 quarter and 76¢/share in the six months; results included capital gains of 35¢ in the latest quarter and 47¢ in the six months. Excluding these capital gains, January quarter operating earnings of 20¢ were well ahead of the 9¢ of the previous quarter. No provision for losses was made in either quarter. Results benefitted from a moderate reduction in nonearning investments, and the improving trend was reflected in boost

of the dividend to 13¢/share from 10¢ the prior quarter. At current prices, the shares are yielding only 5.5%, indicating the market is expecting further earnings and dividend progress. Such anticipation of improvement is normal and while the shares have moved up strongly from recession lows, there is ample room for improvement toward the $15.27 book value as dividends and earnings recover even further. On that basis the shares remain interesting recovery candidates. (KDC)

INVESTORS REALTY TRUST (6 3/4--ASE--IRT) FY Nov. 30

Real estate investments: Total investments crested at $61.6 million at February 1975 and have run off slowly since then, reaching $54.8 million at latest report. Investment properties, including leasebacks, have been stressed and most problems have arisen from mortgage investments. The total portfolio stresses apartments, 54% of all investments, and shopping centers, 15% of holdings at Nov. 1976. Other categories include motel, 7%; retail, 6%; land acquisition and development loans and undeveloped land, 7%; and commercial property, 5%.

Owned properties are predominantly apartments and shopping centers, with $27.8 million in owned apartments; $2.1 million in land purchase/leasebacks on apartments; $8.7 million in four owned shopping centers and retail stores; and $3.1 million in land leasebacks in nine shopping centers and retail units. Five apartment projects with 2,191 dwelling units are owned directly, and the trust has land leasebacks on four other projects with 1,106 units. Four shopping center and retail department store properties with 486,000 sf are owned directly, and land leasebacks in nine additional retail properties add 1,167,000 sf. Directly owned properties are subject to $24.8 million non-recourse first mortgage debt, giving IRT $11.7 million net investment in these holdings. Leasebacks are essentially second positions junior to $32 million of prior mortgage debt. Major owned properties are:

Property & location	D.U./ Th. SF	Net Cost#
Parc Fontaine Apts., New Orleans.....	792	$9.0M
Club Candlewood Apts., Atlanta.......	486	7.8
Carriage House Apts., Durham, N.C....	272	3.8
Elmwood Plantation Apts., Metairie,La.	365	3.5
Spanish Quarter Apts., Montgomery....	276	3.6
Total apartments..............	2,191	$27.8M
Auerbach's Dept. Str., Salt Lake Ct.	248sf	3.3
Providence Sq. Shop., Charlotte.....	83sf	2.4

Net of depreciation.

Apartments generated $486,000 net cash flow after mortgage amortization in FY 1976, equal to 8.1% return on net cash investment. Parc Fontaine, Elmwood Plantation and Spanish Quarter all returned over 10% on investment while Carriage House was below par at 5% return. Rents are being increased, however. Club Candlewood, a long-standing problem acquired in settlement with Ervin Industries, lost $44,000 on $1.0 million net cash invested but is now over 90% occupied. Shopping centers earned 9.2% net cash flow on investment, with Auerbach's performing best at 33% return. The land leasebacks earned 9.4% on the $5.14 million invested with only one investment showing negative return. That non-performer is $751,000 in Ramblewood Apartments in Glen Ellyn, Ill., now being operated in a joint venture with the former lessee; foreclosure proceedings by the first mortgage holder have been discontinued.

Foreclosed properties and nonearning mortgage loans amounted to $8.5 million, or 15.6% of investments, at Nov. 1976. However addition of the two equity investments with negative cash flow would about double this total to $17.4 million, or 32%. Foreclosed properties of $6.2 million at Nov. 1976 include $2.2 million in a 180-unit Ramada Inn in Fort Pierce, Fla. which suffered $111,000 negative cash flow during FY 1976 after payments on a $1.9 million first mortgage but is now positive cash flow; $1.3 million in the 123-room Escape Hotel in Fort Lauderdale, Fla., which lost $44,000 in 1976; $1.5 million in 82.9 acres of industrial land in Carrollton, Tex., with no operations; and $1.2 million in 16 units and approx. 20 acres land at Mill Creek Club Condominiums in Nashville, with $77,000 negative cash flow in 1976 and for which IRT is providing some permanent mortgages.

During 1976 IRT sold its Las Colinas apartments in Tucson, Ariz. and the Cedarwood Golf Club in Charlotte, N.C., both previously acquired and with nominal positive cash flow in 1976, at about a $75,000 loss. Also during 1976 the trust decided to terminate two investments: a $325,000 land purchase/leaseback on 270-unit Club North Apartments in Columbus, O., to be deeded out for $50,000; and a $155,000 net investment in Carrollwood Village Office Bldg. in Tampa, Fla., experiencing low occupancy. The only mortgage not earning income at Nov. 1976 was a $1.8 million land development loan on 68 acres in Lauderhill, Fla., brought current Feb. 1, 1977.

Loss reserve: The trust has set aside $1.17 million for possible future investment losses, based upon management's estimate of future holding costs, including interest, of nonearning investments plus any loss upon disposition. The reserve equals 2.1% of investments and 6.6% of all investments except owned properties, both percentages well below the 11.9% industry average but justified by the large equity holdings. The trust charged $345,000 to the reserve in 1976 but these charges did not include the $350,000 anticipated loss on terminated projects, charged in the Feb. 1977 quarter.

Financing: All debt is 2.3 times shareholders' equity, viewed as a manageable leverage ratio because about two-thirds of debt is self-amortizing mortgage debt. However trust land leaseback holdings are subject to $32 million first mortgages, giving IRT substantial off-balance sheet leverage. The trust borrows from seven banks under a revolving credit agreement currently providing a maximum $17 million credit, with interest at ½% over the prime rate plus compensating balances of 10% of the line or 20% of amounts borrowed. The agreement extends to March 31, 1978 and repayment is required from 75% of net cash flow, as defined, plus net amounts of all mortgage principal repayments and sale or refinancing of equity investments. The agreement restricts new commitments, requires the trust to remain a qualified REIT, and limits annual dividends to 25% of annual cash flow.

Management & REIT status: The trust was sponsored at its initial offering April 29, 1971 by Crescent Properties, a Nashville, Tenn. real estate company. A Crescent subsidiary advised the trust through Sept. 30, 1976. On Oct. 1, 1976, Thomson Mc Kinnon Advisory Corp., subsidiary of the securities brokerage firm, succeeded to the advisory contract and retained substantially all personnel of the former adviser. The trust has retained REIT status since inception.

Results & outlook: Problems encountered in mortgage lending and land leasebacks have been contained and overcome fairly well, with the result that earnings have been showing gradual improvement in recent quarters. Management has bitten the bullet on two investments with little chance of longer-term viability while concentrating resources in improving cash flow from problem holdings with more promising outlook. All these efforts give hope of cash flow and earnings improvement in FY 1977, although it is probably too early to think of resuming dividends. The shares are already anticipating substantial improvement but at 6 3/4 some upside potential toward book value of $10.52 is available. (KDC)

JMB REALTY TRUST (14 bid units--OTC--JMBRS) FY Aug. 31

Real estate investments: Total investments have been trending upward quite gradually over the years of trust operations and are now near their historic high, the increases reflecting a moderate level of new commitments. Investments of $24.6 million are 53% wrap-around mortgage loans; 13% construction, development and other short-term loans; 18% ownership of the Lake Sahara Apartments in Las Vegas, Nev.; and 17% in land purchase/leasebacks. Investments are predominantly apartments at 49% of holdings, with shopping centers 21%, office buildings 15%, mobile home parks, 10%, and land development loans, 5%. Holdings are in 11 states with 23% in Arizona, 19% Nevada, 15% Illinois, 6% each Florida and California, and 5% Pennsylvania.

The $12.97 million invested in wrap-around mortgages is subject to existing first mortgages totaling $8.7 million, giving the trust $4.3 million net investment in these specialized financing instruments. Four of the five wrap-arounds, totaling

$8.4 million, are to partnerships whose general partner is an affiliate of the adviser. A total $4.0 million is invested in nine subordinated land purchase/leasebacks, another sophisticated financing technique in which the trust buys land beneath income producing properties and leases it back to building owners; JMB's leases run for 47 to 59 years and provide minimum annual rents of $390,000 (i.e., about 9.7% on investment) plus 15% of project income over stipulated base amounts. Overage rents are believed to have approximated $150,000 in FY 1976. All JMB leasebacks are made to adviser-related entities. The lone property owned directly, Lake Sahara Apartments in Las Vegas, became directly managed by an affiliate of the adviser on Jan. 1, 1976 after lease to an independent manager was cancelled; JMB has $4.4 million invested.

Problems have been well controlled and at Nov. 1976 only a $415,000 land purchase/leaseback was not earning income, equal to 1.6% of investments. The nonearning loan cost the trust 7¢/share in lost earnings and 15¢/sh. addition to the loss reserve in FY 1976. Another 2¢/sh. was lost in the Nov. 1976 quarter. The trust has agreed to forbear all ground rental payments through Jan. 1, 1978; the leaseback underlies Wildridge Apartments in Colorado Springs, Col., and the lessee is a related partnership. During the November 1976 quarter the trust sold its land leaseback at Sundance Apartments, Fountain Valley, Cal. to the owning related partnership for a $335,000 gross profit. A $1.3 million participation in $12.3 million development loan for Chesterbrook in King of Prussia, Pa. was in technical default at Nov. 1976 because of approval delays, and the trust has agreed to a restructuring that could involve an additional $400,000 funding by the trust.

Loss reserve: A $75,000 reserve was set aside in May 1976 against the Colorado Springs leasehold; it equals 0.3% of holdings, well below the industry average but justified by the trouble-free nature of the portfolio.

Financing: Total debt of $14.5 million at Nov. 1976 is 1.5 times shareholders' equity, considered a very low leverage ratio. Debt is $8.7 million existing first mortgages underlying the wrap-arounds and $5.8 million borrowed from a bank under two agreements. During Dec. 1976 the trust placed a $3.7 million mortgage on the Las Vegas apartments and used mortgage proceeds plus cash from sale of the California leaseback to repay $3.5 million of bank debt. Such debt is at ¼% over the prime rate and balances of the adviser and affiliates are taken into consideration in determining compensating balance requirements. The trust has $2.4 million commitments to make additional wrap-around and construction loans, all to various partnerships affiliated with the adviser. In addition the trust may advance an additional $400,000 in restructuring its lone development loan near Philadelphia, Pa. The bank credit agreement expired Dec. 31, 1976 and the bank has informally agreed to renew the line of credit, although recent paydowns suggest future funds from this source may be restricted.

Management & REIT status: JMB Realty Advisors, Inc. of Chicago has advised the trust since initial offering in August 1972. Sponsor JMB Realty Corp. is well known as sponsor of publicly offered real estate partnerships and the trust has loaned about 70% of total mortgages to partnerships whose general partner is an affiliate of JMB Realty. REIT status has been maintained since inception.

Results & outlook: Earnings declined to $1.58/sh. in FY 1976, down 10% almost entirely because of the nonearning status of the Colorado Springs land leaseback. This problem will reduce earnings by about 2¢/sh. per quarter during calendar 1977. Earnings of 78¢/sh. were reported in the Nov. 1976 quarter, including 37¢ gain on sale of the California leaseback. The trust intends paying income tax on this gain and retaining net profit for reinvestment. Dividends of 40¢/sh. were declared in the Nov. quarter, level with payments since late 1975. Recent liquidation of one asset and mortgaging of another suggests the trust has financial resources and liquidity sufficient to raise funds to repay bank debt and meet forward commitments. However this combination of events also suggests the trust may be less ebullient in making new commitments. Dividends and earnings are likely to be level for some time as current sluggishness is digested but the shares have longer-term speculative potential while paying adequate yield. (KDC)

MARYLAND REALTY TRUST (3½ bid--OTC--MDRTS) FY Nov. 30

Real estate investments: Initial investments of $25.6 million marked the peak of funded investments for the trust, and progress since then has been concentrated in reducing investments resulting from collapse of the former adviser. Investments of $20.6 million at Feb. 28, 1977 were 32% apartments, 32% land and development, 14% condominium, 10½% office building, 5% nursing home, 4% single family, and 2% leasebacks. Virtually all holdings are in northern Florida and Georgia, largely the result of initial sponsor Commonwealth Corp.'s location in Tallahassee, Fla.

Nonearning investments were reduced to $7.1 million, or 34½% of investments, at end of the Feb. 1977 quarter, down from 59% at end of FY 1975. During the latest five quarters the trust sold virtually all the 103 condominium units it had acquired in foreclosure and boosted occupancy to 92% for four acquired apartment projects with 354 apartment units, located in the Florida panhandle and Atlanta, Ga. Occupancy at the trust's suburban office park in Leesburg, Fla. is 64% and improving. Overall, foreclosed properties contributed $241,000 net income, after $207,000 depreciation, in FY 1976 and added another $38,000 in the February quarter. The February quarter results reflect sale during the quarter of the four apartment projects for $5,375,000, with the trust providing $5,325,000 first mortgage financing and retaining the underlying land valued at $381,000. No profit or gain was reported on the transaction.

With that sale the focus swings to disposal of $4.5 million non-operating foreclosures, mainly $4.3 million in seven land parcels acquired, plus $2.2 million land development loans. Management says it is getting good real estate offers on its land, compared to far-out deals before. Land is generally located in areas where local economies appear able to absorb land in a reasonable time, and some joint venture proposals are being entertained. Two large parcels are in Tallahassee with $2.7 million invested and a joint venture is possible; 177 acres has been acquired and a 156-acre tract is being foreclosed. In Pensacola, a 36-townhouse plot is valued at $110,000, and a 134-acre tract in Walton County is valued at $600,000. In Albany, Ga., $1.3 million investment is split $890,000 in a well-located residential tract of 91 acres, and $380,000 in 22 partially developed industrial acres. Georgia land includes $700,000 in 22 developed acres of commercial land in Snellville, 16 miles east of Decatur, and $370,000 in 35 acres, partially developed, in Dalton, about 25 miles southeast of Chattanooga. Not all land may move this year but all is for primary residential or industrial use, and improved or with utilities available.

Financing: Total debt of $11.5 million at Feb. 28 is 1.9 times shareholders' equity and 1.3 times combined equity and loss reserves, very low leverage ratios considering the trust's ordeal. All debt is bank loans provided by two banks, including the sponsor, under a secured revolving credit signed in January 1976. Substantially all assets are pledged as security, and security must equal outstanding borrowings; new borrowings are permitted up to the unused portion of the commitment and the trust has about $1 million to fund new commitments, if made, during FY 1977. Interest is at the prime rate.

Management: The trust was originally sponsored by Maryland National Corp., a bank holding company, and Commonwealth Corp., a mortgage banker. Commonwealth filed Chapter X bankruptcy in June 1974 and a new subsidiary of Maryland National, Maryland National Advisers, Inc., became adviser.

Results & outlook: Maryland earned $25,000, or 3¢/share, in the February 1977 quarter, up from essentially break-even operations in the previous quarters when reported income was boosted by profits on condominium sales. Sale of the four apartment projects should benefit operations in later quarters. Since Maryland has never qualified as a trust, there is no real pressure to pay dividends. The trust may find its future role as a financial holding company or real estate operator. The small and compact size of investments is a big plus. The shares at 3½ bid sell at an effective 50% discount from book value now up to $8.06/share, and are an attractive, although small, speculative vehicle. We have ranked them No. 2N for above-average quality. (KDC)